



Sierra Leone Budget Analysis

2023



About BudgIT Sierra Leone

BudgIT Sierra Leone is a civic technology organization specializing in intersecting citizen engagement with technology to promote transparency and accountability in governance. As a pioneer in social advocacy melded with technology, BudgIT Sierra Leone uses a range of technologies to simplify government budgets and matters of public spending for citizens to foster accountability and responsible governance. With a four-pronged focus on Budget Access, Tracka, Extractives, and Institutional Support, our methodology is to use the most refined data-mining skills to present data to citizens and empower them to demand better service delivery and good governance.

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Source: Ministry of Finance, Sierra Leone

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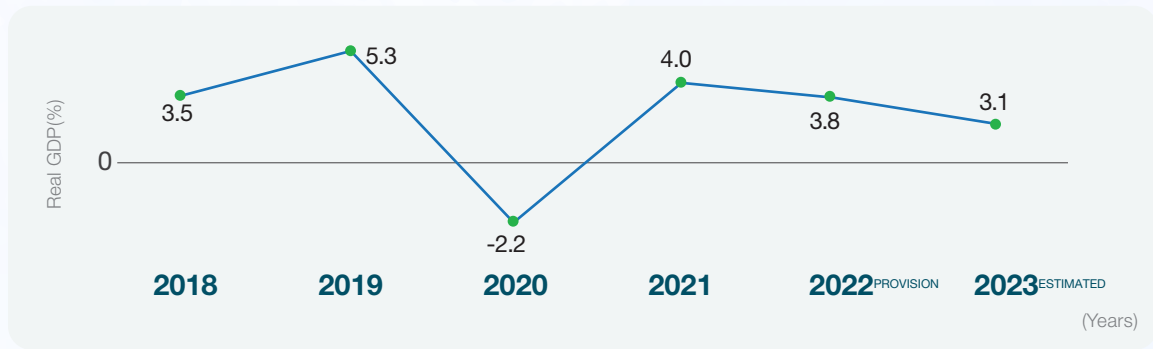
WEBSITE

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SIERRA LEONE'S ECONOMY PERFORMANCE

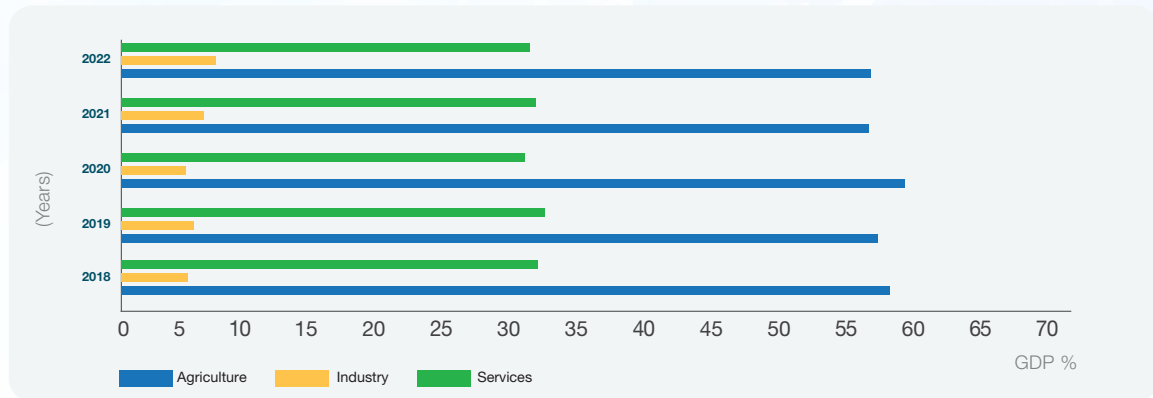


Slowing Economic Growth



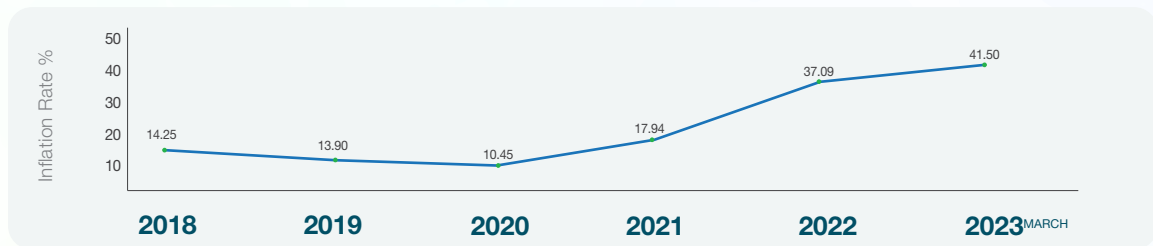
Source: Statistics Sierra Leone

Percentage Contributions to GDP by Sector (%)



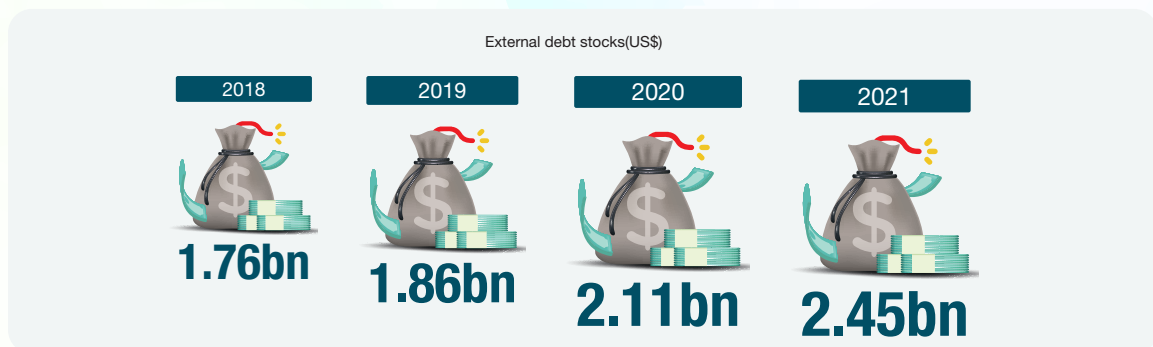
Source: Statistics Sierra Leone

Inflation Rising Midly ¹



Source: Statistics Sierra Leone

Government Debt Stock Rising ²



Source - World bank

¹ Inflation figure YoY, increased by 160% within five years.

² Sierra Leone's debt service to domestic revenue projected to reach 26% in 2023

OVERVIEW OF SIERRA LEONE 2023 NATIONAL BUDGET



Overview Of Sierra Leone 2023 National Budget.



The Sierra Leone 2023 budget will likely faces numerous challenges that limit the government's ability to generate revenue to fund its annual spending plan, including the lingering effects of the COVID-19 pandemic, the ongoing Ukrainian crisis, and the escalating risks of climate change. The lingering effects of the situation have caused a sharp and synchronized slow-down in global economic activity, with the October edition of the International Monetary Fund's World Economic Outlook projecting global growth of 2.7% in 2023, down from 3.2% in 2022, and global inflation of 6.5% in 2023, down from 8.8% in 2022. These factors pose significant risks to living standards and confer more hardship on the poor and vulnerable citizens.

The 2023 budget theme is "Addressing the needs of the vulnerable in the context of multiple crises." As the government struggles to implement the country's medium-term outlook, it examines the current projections, which indicate that growth will not return to pre-pandemic levels until 2025, and that it will only reach 3.1% in 2023. Inflation is expected to decline gradually to 23.7% in 2023. However, it is expected to fall even further by 2025, to 14.3%.

This year, the government plans to alleviate the suffering of average citizens by

prioritizing allocation toward increased food production, education, and health services, investing in infrastructure, and improving the business environment in order to promote sustainable, inclusive, and greener growth in order to create jobs and fund the upcoming general elections in 2023.

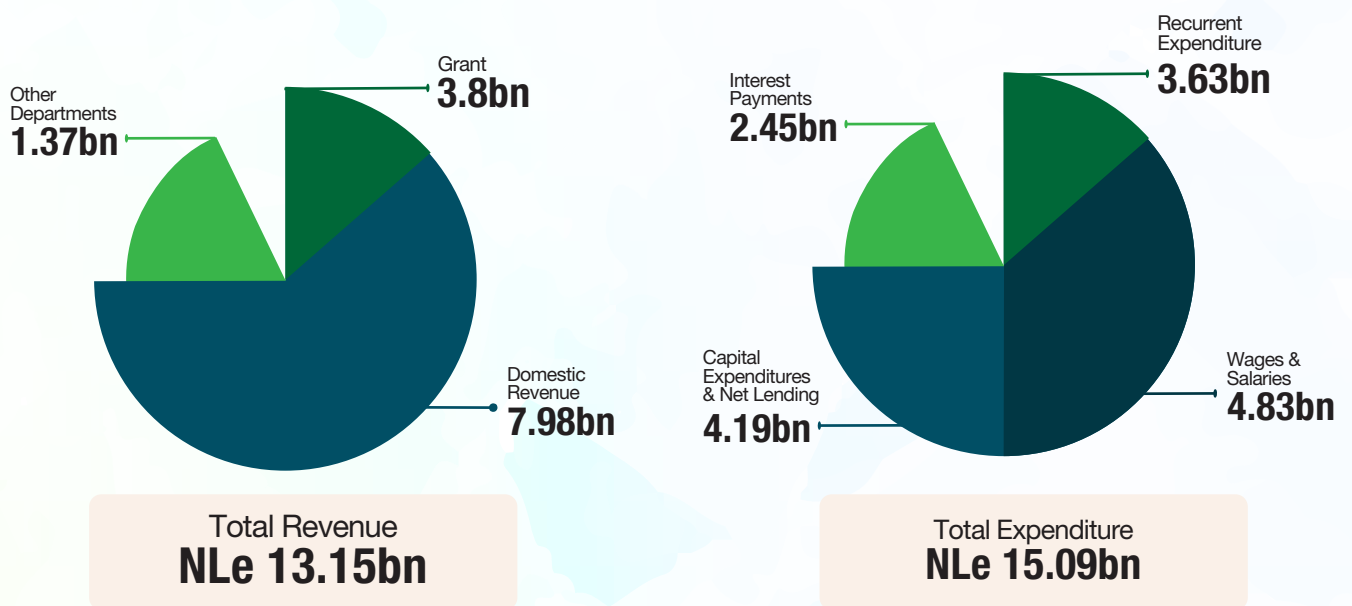
The total budget allocation for FY 2023 is NLe 15.09bn, and revenue of NLe 13.15 billion, which leaves a deficit of NLe 1.95 billion. The government expects NLe9.35 billion in domestic revenue (14% of GDP) in 2023; income taxes (NLe3.7 billion) continue to contribute the lion's share of total projected domestic revenue, while road user charges (NLe197.9 million) contribute the least. Furthermore, grants are expected to contribute a total of NLe3.8 billion (5.7% of GDP) to the overall revenue of NLe13.15 billion, with the World Bank contributing NLe1.8 billion in budget support and NLe2.0 billion in project grants as part of the grants.

The total expenditure and net lending are projected to be NLe15.1 billion (22.7% of GDP) in 2023, up from NLe13.7 billion (25.7% of GDP) in 2022. Recurrent expenditure will be NLe10.9 billion, capital expenditure will be NLe4.2 billion, and the budget deficit, including grants, will be NLe1.96 billion (2.9% of GDP), financed primarily through domestic sources.

Key Assumptions of The 2023 Budget Framework

Macroeconomic Indicators	2023
GDP at constant prices (%)	3.1%
GDP at market prices (billions of Leone)	68,059
Per capita GDP (US\$)	411
Consumer prices % (end-of-period)	23.7
Gross International reserves (excl, swaps, US dollars)	572

Fiscal Framework



Budget Deficit
NLe 1.95bn

UNBOXING THE 2023 BUDGET



Revenue

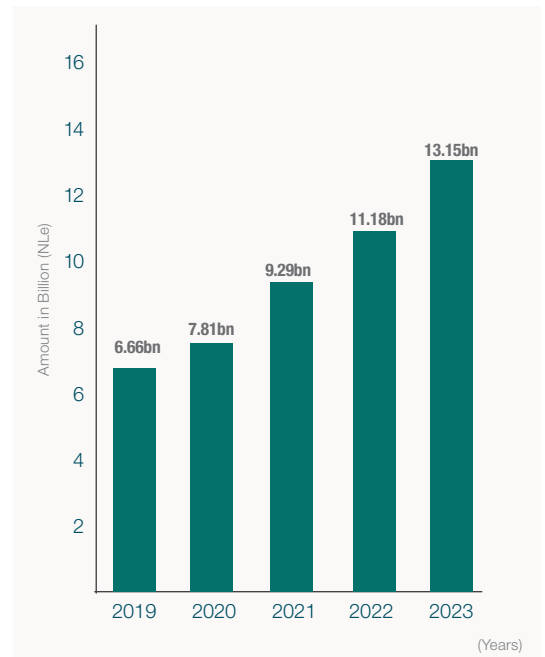
Revenue refers to the total amount of money earned during a specific period of time. The national revenue of Sierra Leone consists primarily of taxes, customs duties, mining royalties, and other fees, with tax revenue accounting for approximately 70% of the annual revenue forecast. The post-COVID-19 pandemic effect has exacerbated the nation's longstanding inability to generate sufficient revenue to meet its development needs. The Sierra Leonean government has implemented several tax reforms in recent years to increase revenue collection, including the introduction of a Tax Identification Number (TIN) system and the expansion of the tax base.

Despite these efforts, Sierra Leone continues to face revenue generation challenges. According to a five-year analysis of domestic revenue, total domestic revenue of NLe 9.35 billion (14% of GDP) in 2023 cannot comfortably finance the country's recurrent expenditure of NLe 10.9 billion without relying on loans or grants. The tax revenue component is hampered by low tax compliance and a large informal economy. As a result, sustained efforts to improve tax administration and capacity, as well as promote economic growth and diversification, are likely to increase the country's domestic revenue generation.

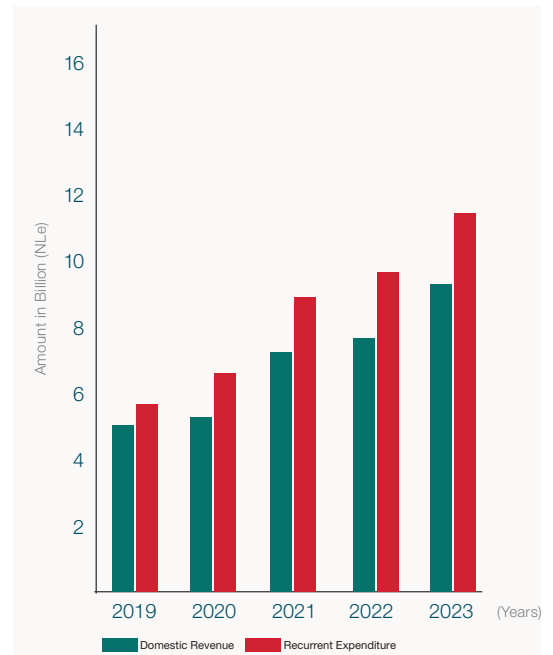
Unboxing The 2023 Budget



Total Revenue in the Last Five Years



An Overview of the Domestic Revenue & Recurrent Expenditure In the Last Five Years



Component of Domestic Revenue in FY2023

Sierra Leone's tax base is relatively narrow, with customs duties and sales taxes accounting for the majority of revenue. This year's tax revenue accounts for 55% of total revenue and grants of NLe13.15 billion, an increase of 21% over the previous year's estimated tax revenue of NLe5.7 billion.



2023 Tax Revenue

7.21bn



Income Tax

3.69bn



Goods and Services Tax

1.84bn



Customs and Exercise

1.67bn

Revenue from the Mining Industry

Minerals and precious metals remained the primary exports, accounting for 91% of total exports in 2016, but have since declined to 65% in 2021. It is estimated to contribute Nle 576.8 million, a very small fraction of 0.9% of GDP growth and as little as 4% of the country's overall revenue.



2023 Mining Revenue

576.81m



Royalty on Rutile

14.73m

Royalty on Bauxite

27.32m

Royalties on Diamond and Gold

208.85m

Royalty on Iron Ore

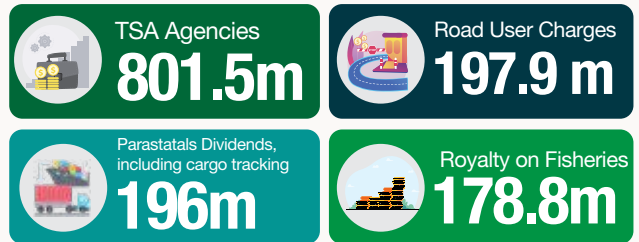
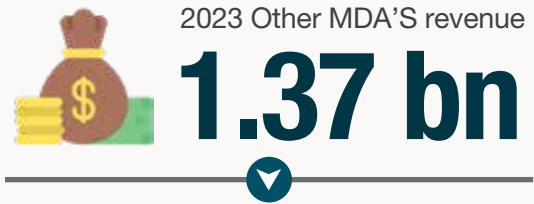
147.63m

Licences(Including Petroleum Revenue)

178.28m

Revenue from Other MDA'S


If properly invested, Sierra Leone's fisheries have the potential to contribute to the country's economy and become the second-largest export sector after minerals. However, it does not appear that the fishing industry contributed significantly to Sierra Leone's economy during the current fiscal year. It is anticipated to generate only NLe178.8 million of the total NLe13.51 billion in revenue.



Revenue from External Sources

Due to revenue shortfalls, the government anticipates receiving NLe3.8 billion in grants. The World Bank will provide budget support worth NLe1.79 billion and project grants worth NLe1.97 billion as part of the grants.



 World Bank-
Budget Support

1.79bn



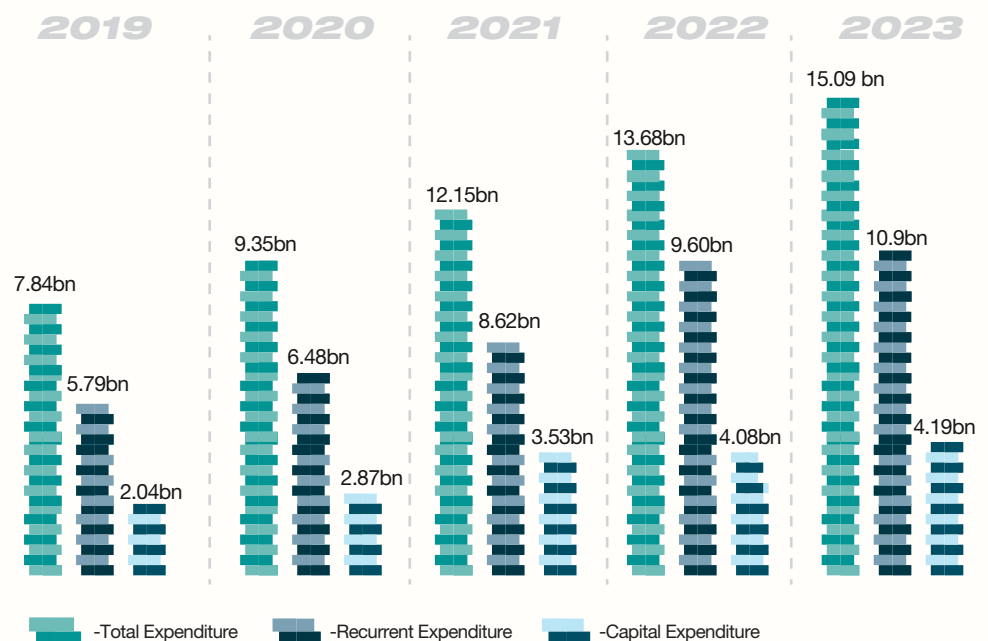
Project Grant

1.97bn

Expenditure

Sierra Leone is projected to have a total expenditure of 15.09 billion in 2023, representing a 10% increase compared to previous spending. The majority of this expenditure, accounting for 72%, is allocated to recurrent spending, while capital expenditures make up the remaining 28%. Despite the government's commitment to investing in social services, poverty reduction, and economic development, managing expenditures poses significant challenges due to limited financial resources, high levels of debt, low revenue generation, and weak institutional capacity to implement and monitor government programs. Therefore, addressing the issues of limited financial resources and improving institutional capacity should be prioritized to ensure effective management of public finances.

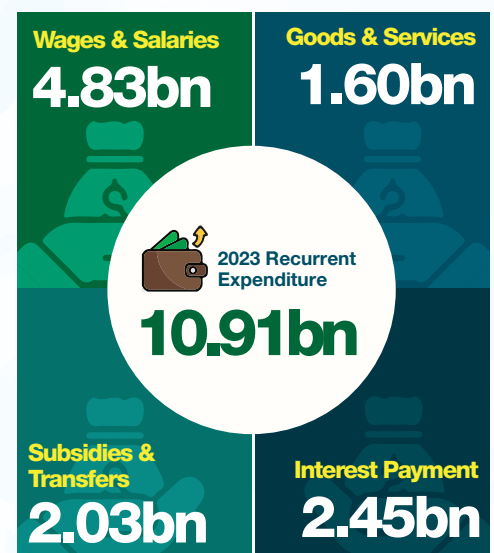
Unboxing The 2023 Budget



Component of Expenditure in FY2023

Recurrent Expenditure.

Recurrent expenditures are funds set aside to pay for public employee salaries, social welfare programs, and debt services. The recurrent expenditure for this year is estimated to be NLe10.91tn, accounting for 72% of total expenditure and increasing by 14% over the previous recurrent allocation. This increase could be linked to the portion of salaries and interest payments allotted.

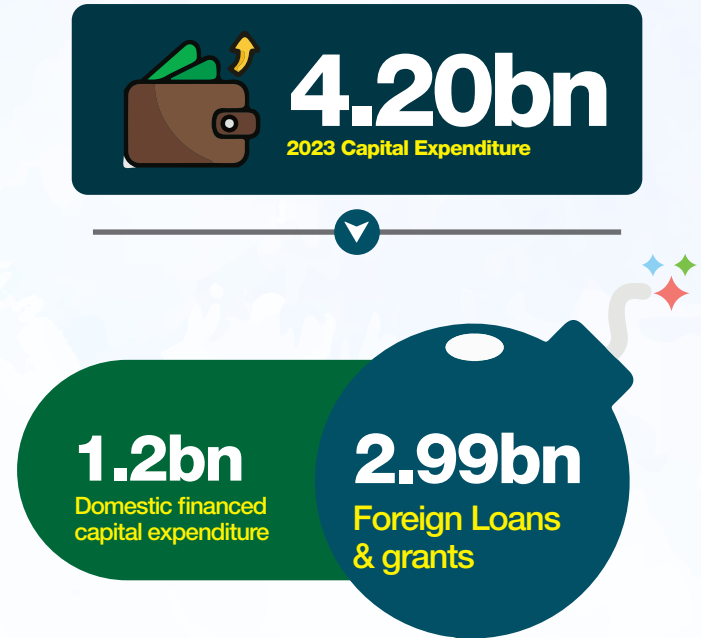


Capital Expenditure

Capital expenditures are funds allocated by the government for the purchase, construction, or improvement of long-term assets, such as infrastructure, buildings, equipment, and other tangible assets. They are one of the most important components of the budget as they contribute to economic growth, public services, cost savings, wealth creation, inter-generational fairness, and long-term planning. Appropriate allocation of capital expenditures in national budgets can support sustainable development, improve the welfare of citizens, and promote a nation's long-term growth and prosperity.

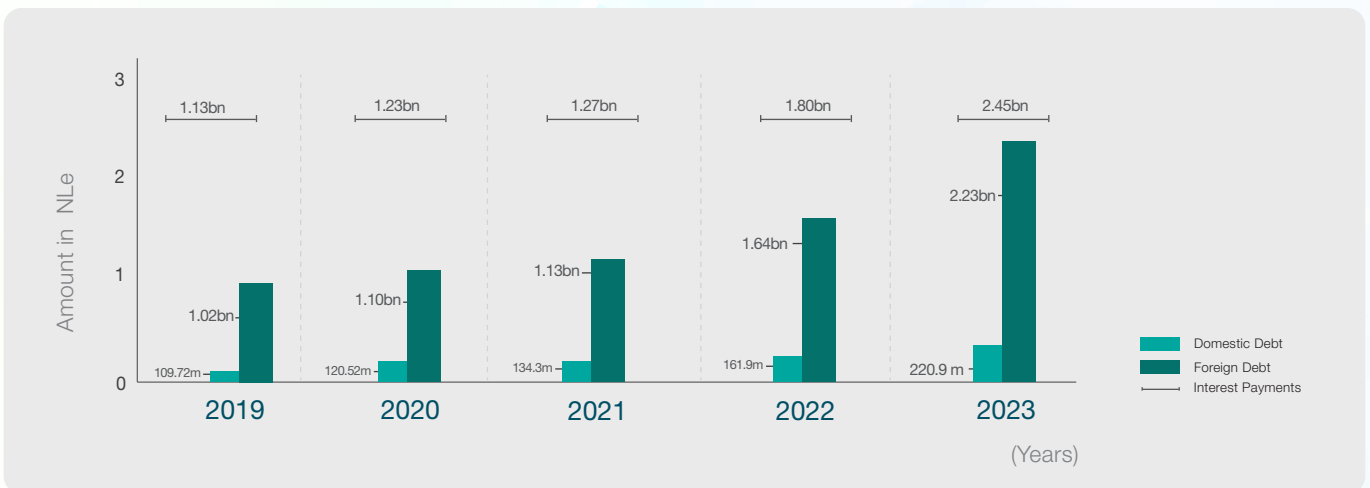
Despite Sierra Leone's massive infrastructure deficit, the government has yet to allocate adequate resources to capital provisions. This year, the government has allocated 28% of its total budget of NLe15.09 billion to capital expenditures, up from 20% in 2022, which will

be heavily financed by foreign loans and grants. This investment will be used to improve infrastructure such as roads, energy, and water supply.



Debt Service Payments

A country's total national debt is the sum of its annual budget deficits and any offsetting surpluses. It is the total amount of money owed by a government to creditors. As a result of the increased financing needs, Sierra Leone's public debt stock reached NLe40.3 billion (US\$3.0 billion) as of the end of June 2022, accounting for 79.8% of GDP. External debt is estimated to be US\$1.9 billion, with domestic debt at NLe14.5 billion (US\$1.1 billion). Debt service payments, including amortisation, accounted for 37% of domestic revenue and 20% of total expenditures at the end of June 2022, while the government estimates NLe2.45 billion this year, accounting for 26% of domestic revenue and 16% of total spending to finance debt service.



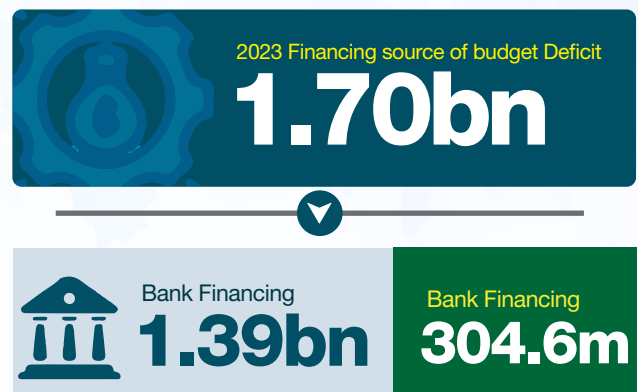
Budget Deficit

A government incurs a budget deficit when it spends more money than it receives in taxes and other revenues, excluding debt. Sierra Leone's budget deficit has steadily increased, rising from NLe1.23 billion in 2019 to NLe1.96 billion in 2023, a 60% increase in the last five years, necessitating increased government borrowing to close the gap.

The total budget deficit, including grants, is expected to be NLe1.96 billion (2.9% of GDP) in 2023, while the deficit excluding grants is expected to be NLe5.8 billion (8.6% of GDP), with the government planning to finance NLe1.7 billion through domestic sources.

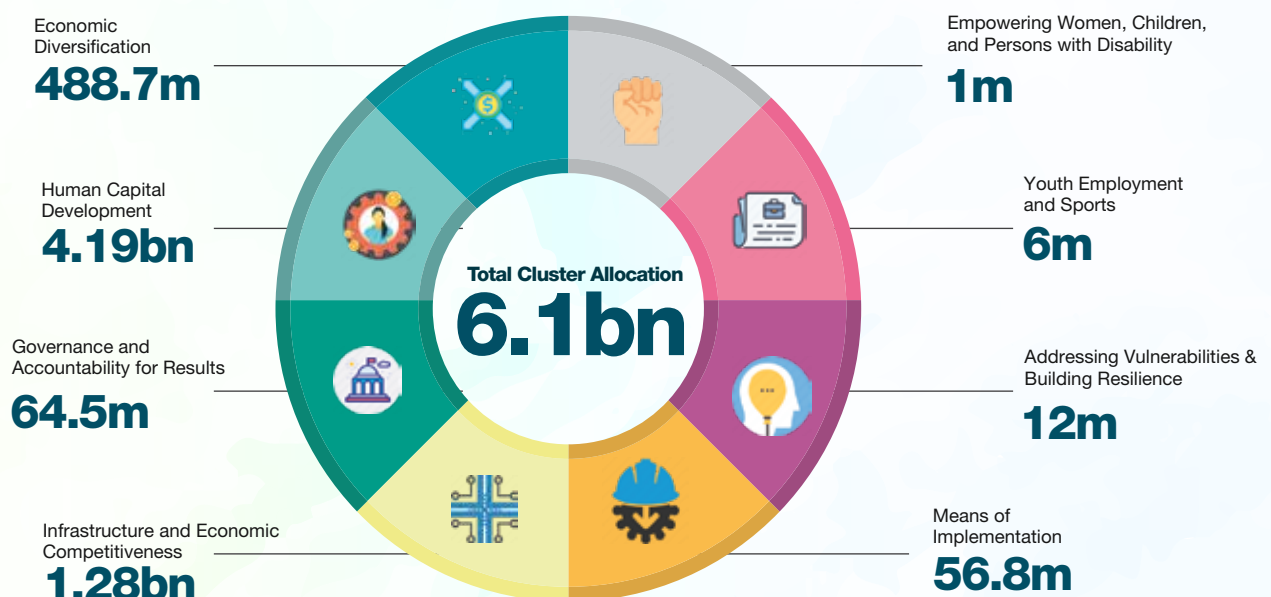
Year-on-Year Budget Deficit

	Including Grant	Excluding Grant
2019	1.18bn	2.46bn
2020	1.11bn	2.88bn
2021	2.95bn	5.32bn
2022	2.52bn	6.29bn
2023	1.96bn	5.75bn



National Development Plan Cluster Allocation

The MTNDP (Medium-Term National Development Plan) goals are categorized into eight clusters and 48 sub-clusters: each cluster's objective is to address and improve the areas of concern indicated below:



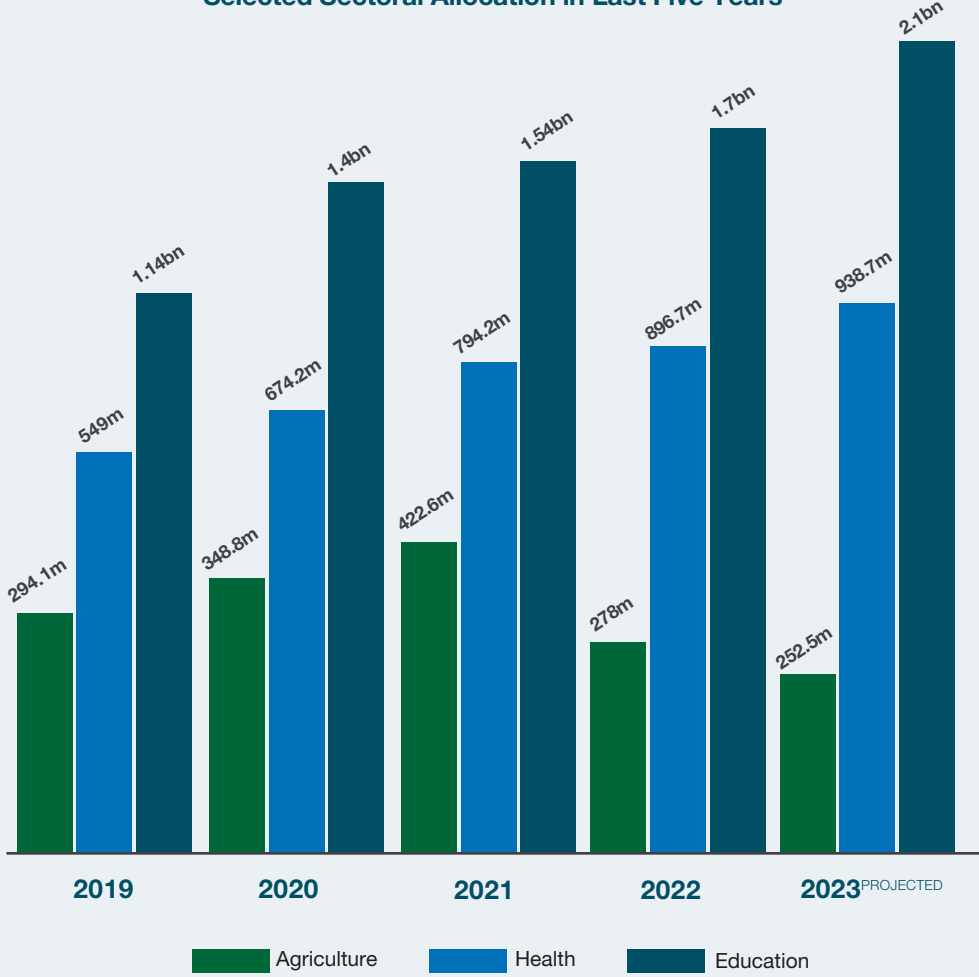
SECTORIAL ANALYSIS



Sectorial Analysis

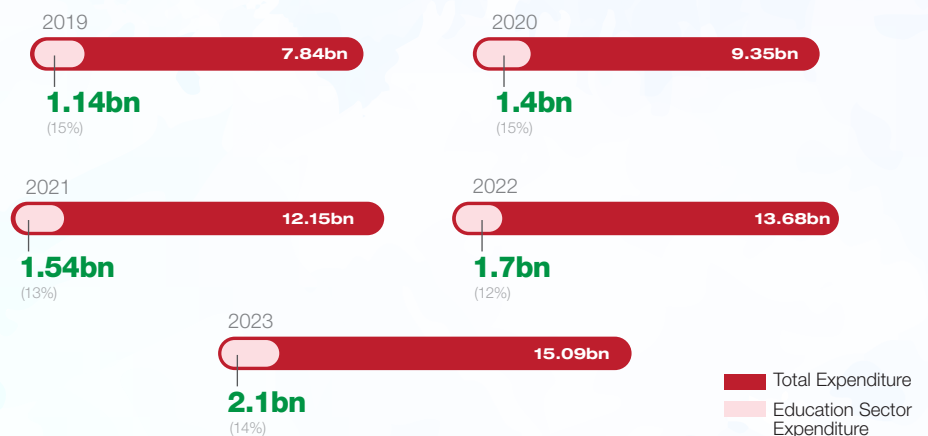


Selected Sectorial Allocation in Last Five Years



Education Sector

According to a trend analysis of sectoral allocation in Sierra Leone, the Education sector has received the most funding. It implies that the government has been allocating between 12% and 15% of the total budget, which is close to the United Nations Educational, Scientific, and Cultural Organization (UNESCO) Declaration, which states that education should receive 15 to 20% of a country's total budget. Despite this significant investment, the education sector faces significant development challenges that necessitate significant intervention and investment in impactful projects such as infrastructure, teacher training programs, and developing curriculum that is relevant to labor market needs. The government must establish transparency and accountability measures to ensure the efficient use of resources for sectoral allocations.

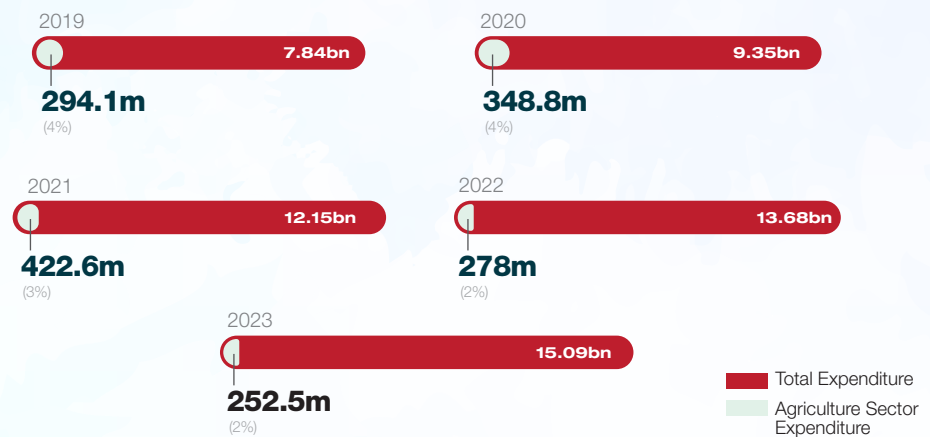


Key Budget Allocations for Education in 2023

PROJECTS	STATUS	LOCATION	BUDGET
Education Sector Project (Four Government Schools)	Ongoing	Nationwide	281.4m
Free Quality School Education Programme	Ongoing	Nationwide	458.2m
Capacity Building for Junior and Senior Secondary Schools	Ongoing	Nationwide	3m
Construction of University of Science and Technology (UST) in Kono	Ongoing	Kono	178.5m
Construction of School of Excellence in ICT in Bonthe	Ongoing	Bonthe	85.42m
Construction of Administrative, Teaching and Residential Buildings for IPAM	Ongoing	Western Area	60.2m
Welfare and Hygiene Packages for School Going Girls	Ongoing	Nationwide	10m

Agriculture Sector

Agriculture is expected to be the backbone of the Sierra Leonean economy because the country has approximately 5.46 million hectares of arable agricultural land, nearly 75% of which is cultivable, fertile soils, and abundant rainfall of about 3,800mm per year, making it one of Africa's most humid countries, and ideal for a wide variety of crops such as rice, cassava, groundnuts, and so on. Despite these opportunities, Sierra Leone faces a food supply shortage and is one of the world's poorest countries, spending \$300 million on rice imports alone, straining foreign exchange and contributing to the leone's depreciation against foreign currencies.



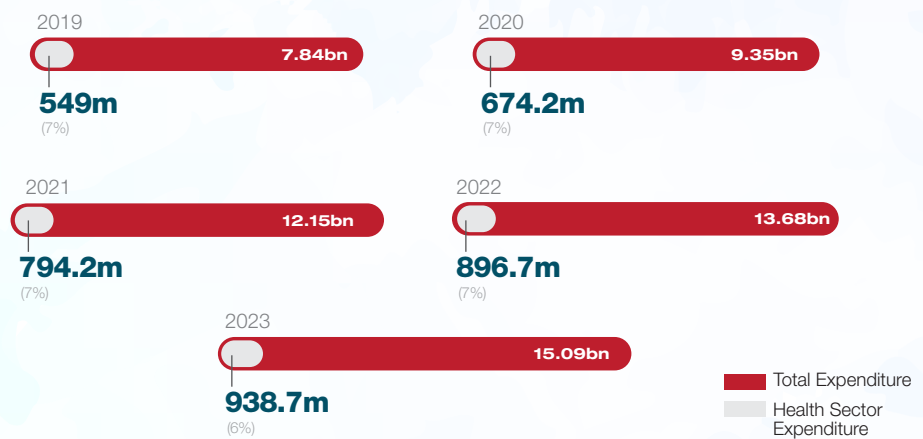
The sector's vast potential is largely untapped, with only small-scale subsistence farming currently dominating the sector and a very low budget allocation of less than 5% of total expenditure, and in 2023, the total allocation going to this sector stands at 252.5 million, accounting for just 2% of total expenditure, which does not correlate with the government's poverty reduction and food security aims, as stated in the Government Agenda for Recovery Strategy Increasing agricultural productivity is central to GoSL's poverty reduction and food security goals.

Key Budget Allocations for Agriculture in 2023

PROJECTS	STATUS	LOCATION	BUDGET
Input System: E-Vouchers for Rice Production (Seeds, Fertilizers and Tractor Services)	Ongoing	Nationwide	205m
Palm Oil Production Project in Sierra Leone in the Framework of Capacity Building (POPSLCB)	Ongoing	Bonthe	21.10m
Rural Finance and Community Improvement Project Phase 11	Ongoing	Nationwide	19.5m
Regional Rice Value Chain Development	Ongoing	Nationwide	111.3m
Support to Chiefdom Youth Farms	Ongoing	Nationwide	3.6m
Sierra Leone Agribusiness and Rice Value Chain Support	Ongoing	Nationwide	22.6m
Agriculture Value Chain Development	Ongoing	Nationwide	40.9m

Health Sector

The public health system in Sierra Leone is in disarray, and healthcare costs continue to be prohibitively expensive for the general population, which relies on the private health system. The Health Financing Group (Abuja Declaration, 2005) recommends that the government increase its per capita health expenditure to 15% of total public spending in order to reverse its declining per capita health expenditure. However, the five-year trend analysis of allocation to the health sector in Sierra Leone does not appear to take into account this declaration, as they have consistently allocated between 6% and 7% of total expenditure, which in real terms does not appear to be sufficient to pay good wages to health workers, let alone invest in projects that could provide quality health care to its citizens, and the 2010 Free Health Care program has not had the desired effect.



Key Budget Allocations for Health in 2023

PROJECTS	STATUS	LOCATION	BUDGET
Construction of National Warehouse at Kerry Town	Ongoing	Western Area	458.2m
Health Systems Strengthening Project (Save the Mother to Child Project)	Ongoing	Nationwide	30.6m
Construction of Cancer and Diagnostic Medical Centre	Ongoing	Western Urban	40m
Rehabilitation, Expansion and Equipment of District Hospitals	Ongoing	Nationwide	14.4m
Establishment of National Public Health Agency	Ongoing	Nationwide	2m
Procurement of Reproductive Health Commodities	Ongoing	Nationwide	2.7m

BUDGET INSIGHTS & RECOMMENDATIONS



We have identified the top challenges that could hinder the success of the 2023 budget, especially its revenue generation strategies, and identified remedial measures listed below.

Budget Insights & Recommendation



Key Challenges of the 2023 Budget

Dependence on Commodities

The Sierra Leonean economy heavily depends on export commodities like diamonds and iron ore. This overdependence leaves the country vulnerable to fluctuations in global commodity prices and demand, which can negatively impact government revenue. We recommend the government explore new revenue sources by diversifying the economy and developing other industries such as agriculture, tourism, and manufacturing.

Weak Tax Administration

Sierra Leone has a relatively low tax base and low levels of tax compliance, partly due to ineffective tax administration and enforcement capacity. The government could work to increase compliance with tax laws and crack down on tax evasion. This could involve investing in better tax collection systems, training tax officials, and educating the public about the importance of paying taxes.

Informal Economy

A large proportion of Sierra Leone's economic activity occurs in the informal sector, where businesses and individuals may not be registered with the tax authorities. The government could invest in strengthening institutions such as the tax authority, customs department, and judiciary to improve revenue collection and promote economic growth.

Limited Infrastructure

Sierra Leone has limited infrastructure, including poor road networks (only 15% of roads are paved), limited access to electricity (only 13% of the population of over 8 million has access to electricity), and approximately 43% of Sierra Leone's population lacks access to safe water; all of these poor infrastructures are a driver that is impeding economic growth and limiting the government's ability to collect revenue and generate revenue.

Budget Insights & Recommendation



Recommendations

Increase investment in infrastructure

The government should increase its investment by allocating more funds to infrastructure development projects. The government must establish measures to attract external investments to the country. These investments will help improve citizens well-being and also boost the economy.

Prioritize infrastructure projects

The government should prioritize infrastructure projects that are most needed, such as roads, bridges, airports, and seaports, and ensure that these projects are completed on time and within budget.

Public-Private Partnership (PPP)

The government may consider partnership with private entities to finance, design, build, and operate infrastructure projects. This will attract more investment to the country and help to close the infrastructure gap.

Improve the regulatory environment

The government should create an enabling regulatory environment that is conducive to attracting foreign direct investment in infrastructure development projects. This includes removing regulatory barriers and reducing bureaucratic red tape.

Focus on maintenance

The government should not only focus on building new infrastructure but also on maintaining and upgrading existing infrastructure. This will extend the lifespan of existing infrastructure and ensure it remains safe and efficient.

Embrace technology

The government must leverage technology to improve infrastructure, such as using drones to map out road networks or using data analytics to predict and prevent infrastructure failures.